



UNITED STATES DEPARTMENT OF COMMERCE  
The Under Secretary for International Trade  
Washington, D.C. 20230

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July 15, 1983

Not referred to DOC. Waiver applies.

MEMORANDUM FOR: Secretary Baldrige

FROM : Lionel H. Olmer 

Attached for your transmittal to the President is the final report on CIA's assessment of the Soviet economy which has been prepared by the 14 member panel of experts from the private sector working under my auspices for the past seven months.

The Panel has performed its assignment in an exemplary manner. Its report is thorough, clear and to the point; deadlines were met; and confidentiality has been maintained. In my judgment, this 129-page Report will be of substantial benefit, particularly to the Director of Central Intelligence, because of its detailed commentary on CIA's analytical methodologies, the broad range of its constructive criticisms, and the numerous recommendations for improvements to the process of estimating the content and significance of the Soviet economy.

I submit that the most striking conclusion in the Report is the Panel's unanimous general agreement with CIA's assessment:

There is not even a remote possibility that the Soviet economy will collapse, although it suffers from a great many weaknesses.

The Panel was challenged severely by my internal review group on this conclusion; yet it remains firm in its belief that despite strains on the Soviet leadership, which will make certain policy choices more difficult, the economy is sufficiently large, resourceful and adaptive so as to enable the Soviets to muddle-through their economic problems. The Panel noted that too often, intelligence assessments overemphasize weaknesses in the Soviet economy but fail to point out its resiliency and the ability of the leadership to respond adequately to difficulties.

Additionally, the following items warrant special attention:

- o Although the Panel expresses confidence in CIA quantitative estimates of the Soviet economy (e.g., GNP and GNP-growth forecasts), it notes a number of ways for improving the methods of calculation and argues that the significance for

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policymakers of these numbers -- the qualitative estimates -- is neither adequately analyzed nor communicated to intelligence consumers. In particular, the range of uncertainty on CIA judgments is not clearly stated, several important topics and their affects on the economy are understudied (e.g., the underground economy, regional differences, social indicators such as drunkenness, workforce low morale, etc.);

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- o Of the 14 members on the Panel, 10 are or have in the recent past been academics who feel strongly that the CIA policy restricting access of scholars to CIA studies is counter-productive to better understanding of the Soviet economy; that a more sophisticated group of analysts and products would emerge from a policy permitting greater public access to intelligence. (Such a policy was developed in the previous Administration.) The costs to our intelligence system in terms of time and effort in justifying analytical viewpoints to public readers yet needing to stop short of complete disclosure due to source sensitivity, was explained with care but was not persuasive to the Panel. I disagree strongly with the Panel on its point of view in this area.

The Report also implicitly minimizes the potential for influencing Soviet behavior by means of Western economic policies, labeling Soviet foreign trade dependence a "complicated calculus which involves comparative advantage considerations" which have been largely absent from CIA's analytic approach. Thus, the Panel recommends greater attention by CIA to a number of additional aspects of Soviet behavior, such as its responsiveness to prices, the potential for import substitution and the investment commitment by the Soviets to export sectors.

Clearly, this recommendation has relevance for Commerce as well as for the CIA. Arguably, economic sanctions may have but limited practicality. The extent to which they can be a useful tool of our foreign and national security policies, however, will be highly dependent on careful, thorough and objective analysis presented with clarity to the decision maker. In this respect, I believe that the relatively small reorientation to our efforts in the International Trade Administration, involving a new emphasis on analysis of global economic issues, could yield large results of which the Panel's Report is a current example.

Attachment

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